AA-

ISSUER RATING

Long-term Rating

Outlook: Stable

First rating date: 06/05/2022
Review date: 11/12/2023

Contactos

Senior Associate
Karen Marquez Silva
karen.marquez@ethifinance.com

Senior Director
Antonio Madera
antonio.madera@ethifinace.com

Rating Action

EthiFinance Ratings confirms Munich Re's rating at "AA-" with "stable" outlook.

Executive Summary

Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (hereinafter Munich Re) stands as a prominent global risk carrier, offering insurance and reinsurance services worldwide. The company operates in the Life and Health Reinsurance and Property-Casualty Reinsurance segments under the brand of Munich Re. Moreover, it offers life, property-casualty, health, legal protection, and travel insurance products under the ERGO brand name.

Rating Rationale

The rating is supported by its remarkable competitive position in the global (re)insurance market. Moreover, the rating takes into account the company's high profitability, benefitted by the rising insurance prices, strong financial stability, robust solvency and low financial leverage. Nevertheless, the rating is limited by low efficiency, which remains constrained by high natural catastrophe losses, the inherent volatility of the company's exposure to catastrophic events, and a challenging macroeconomic environment with high levels of financial market volatility.

Fundamentals

- **One of the world's top risk carriers, providing reinsurance, primary insurance and insurance-related risk solutions:** World's largest reinsurer, reporting €67.1bn in gross premiums written at YE 2022. Their financial stability, underwriting expertise, consistent risk management and client proximity enables the group to position as a top tier reinsurer.

- **Strong diversification by business lines and geographies:** Munich Re provides L&H and P-C reinsurance under the Munich Re brand and a diverse range of insurance products, including L&H, P-C, travel, and legal protection insurance under the ERGO brand. Munich Re has a global footprint with operations conducted mainly across Europe, North America and Asia.

- **Conservative management of the investment portfolio:** Munich Re's €219.8bn investment portfolio was primarily invested in available-for-sale securities at YE 2022, 87% of which corresponded to fixed-interest securities, including government bonds and corporate bonds (94% rated as investment grade). However, the investment portfolio has decreased in value due to rising interest rates, which has directly impacted Munich Re's equity.

- **Strong financial stability and prudent leverage management:** Munich Re's debt amount €5 bn, year-end 2022, with the majority concentrated in subordinated liabilities. The financial leverage ratio stood at 23.8% in 2022 (17.3% in 2021), demonstrating a strong financial position. The fixed charge coverage ratio remained robust at 21.0x (18.2x in 2021).

- **Robust solvency position despite the marked decline in equity:** Total equity decreased by 31.5% mainly due to the reduction of valuation reserves for fixed-interest securities and equities, which was driven by substantially higher interest rates, and lower stock market prices. Munich Re's Solvency II ratio stood at 260% at YE 2022 (227% at YE 2021), exceeding both the optimal range of 175-220% established by the group and the median for insurance groups of 225% in 2022, according to the EIOPA (The European Insurance and Occupational Pensions Authority).

- **High profitability and increased efficiency, albeit at low levels:** profitability remained high as reinsurance continued to benefit from the ongoing hard market (raising premiums), the ROA closed at 1.1% in 2022 (1.0% in 2021), the ROE increased to 13.2% (9.6% in 2021), however this was favoured by the significant reduction in equity. Despite losses related to the war in Ukraine (€475m) and natural catastrophe losses from Hurricane Ian (€1.6bn) and from the heavy rainfall in eastern Australia (€482m), the combined ratio improved to 96.2% (2021: 99.6%) due to a lower major-loss expenditure compared to the previous year.

Main figures

Key financial indicators of Munich Re	Anual		
(Millones de euros)	2020	2021	2022
Gross premiums written	54.890	59.567	67.133
Net premiums written	51.223	55.202	63.462
Ceded premiums	2.566	2.396	2.929
Rate of ceded premiums	4,8%	4,2%	4,4%
Operating result	1.986	3.517	3.582
Consolidated result	1.211	2.932	3.418
Assets	297.946	312.405	298.571
Cash	5.615	5.413	6.439
Cash/Assets	1,9%	1,7%	2,2%
Financial investments	232.950	240.300	219.797
Financial investments/Assets	78,2%	76,9%	73,6%
Liabilities	267.952	281.459	277.369
Borrowings	5.320	5.348	5.048
Total equity	29.994	30.945	21.202
Solvency II ratio	208,1%	227,0%	260,0%
ROA	0,4%	1,0%	1,1%
ROE	4,0%	9,6%	13,2%
Combined ratio	105,6%	99,6%	96,2%
Net earned premiums to equity	183,0%	192,5%	316,6%

Fuente: EthiFinance & Munich Re

Outlook

The "stable" outlook of the "AA-" rating is based on its remarkable competitive position and financial stability, underpinned by very strong capitalisation and low financial leverage, ensuring its capacity to fulfil its obligations to policyholders.

Rating sensitivities

Factors that could (individually or collectively) impact the rating:

- **Positive factors (↑):**

  The rating could be upgraded in case of an increase in profitability on account of sustained price rises or an increase in efficiency, maintaining strong capitalisation and consistently low financial leverage.

- **Negative factors (↓):**

  The rating could be downgraded in case of earnings volatility, leading to a reduction of the company's capitalisation and an increase in financial leverage.

Regulatory information

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

- Annual Audit Report.
- Quarterly Financial Report.
- Corporate Website.
- Corporate Governance Report.
- Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating

With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Insurance Rating Methodology that can be consulted on https://www.ethifinance.com/en/ratings/methodologies and according to the Long-term Corporate Rating scale available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and it has been modified as the result of the review made during the appeal process.

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